



May 22, 2007

Mary P. Levine
Acting General Counsel/Director, Office of Legal Affairs
Michigan Housing Development Authority
725 East Michigan Avenue
P.O. Box 30044
Lansing, Michigan 48909

Re: Comments on the 2008 QAP

Dear Ms. Levine,

Detroit LISC would like to thank MSDHA for carrying out a process of public comment for the QAP. MSDHA has been a strong partner with intermediaries like LISC and community development corporations throughout the State of Michigan to preserve and expand the supply of affordable housing.

The written comments that follow were provided orally at the public hearing in Detroit that was held by MSDHA on May 18th.

LISC Background

HISTORY OF LOCAL INITIATIVES SUPPORT CORPORATION

Since its founding in 1980, LISC has marshaled more than \$5.7 billion from 3,100 investors, lenders, and donors to become the largest nonprofit community development support corporation in the country. In over 300 urban and rural communities nationwide, LISC has helped 2,400 CDC's build or rehabilitate more than 147,000 affordable homes and almost 22 million square feet of retail, community, and educational space - totaling almost \$13 billion in development. As a result, hundreds of thousands of people have better lives and brighter futures.

DETROIT LISC OVERVIEW

Detroit LISC supports local community development corporations (CDC's) that are making a positive impact in Detroit neighborhoods, by enhancing the image and awareness of these local groups that are developing quality affordable housing and commercial economic redevelopment. Since 1990, Detroit LISC has invested over \$100 million and leveraged an additional \$650 million in funding for the revitalization of Detroit's neighborhoods, which has resulted in the

planning and production of 3,217 units of housing and 567,062 square feet of commercial real estate.

Highlights of Comments on QAP

Detroit LISC is submitting comments that support:

- * A fair and balanced system of credit allocation based on the social and demographic factors for geographical locations
- * Reinstating a competitive scoring process in place of the lottery system
- * Providing an opportunity to make substantial changes to the scoring system to focus the QAP on a small number of goals
- * Fostering more interaction between MSHDA and community and industry stakeholders in an ongoing dialog over the performance of the low-income housing portfolio in Michigan from the application stage through the management of projects that are in service

1) Creating a Competitive Process for Detroit Based Applications/Geographic Targeting

The scoring system should reflect the need for quality affordable housing in the City of Detroit and the proportion of residents who are considered very low or low-income. If geographic restrictions will be placed on the number of credits, then they should be based relative to the size of the jurisdiction and the need for affordable housing within that jurisdiction. The composition of housing in a neighborhood should also be evaluated, so that an oversaturation of very low and low-income housing does not develop but that a mix of options for different income levels is encouraged.

2) Eliminate the Lottery – Applications Should be Scored on a Competitive Basis

A lottery system rewards luck and chance rather than rewarding the best possible developments. Developers undertake substantial expense in order to develop the best possible proposals and there must be assurances that the highest quality development proposals will be reviewed and awarded credits.

The impact of a lottery system has a disproportionate affect on nonprofit organizations that are engaging in neighborhood based development. These organizations create a long-term development strategy and institute projects in several phases over a period of years. Within any short-term time period, neighborhood based nonprofits are focused on one or two key projects that serve as the linchpin for the development that will follow. The lottery system makes it much more difficult for a neighborhood based organization to establish an expectation on the timeline that low-income housing tax credit projects can occur. A lottery also has the potential to stall the redevelopment of neighborhoods merely because of the random nature of the selection system.

At the same time, the neighborhood groups create a business plan for their operations to manage the staffing, systems, and resource development that needs to support the real estate development. Because their scope of activities is at a neighborhood level, the operations of an organization can be volatile unless they are able to establish a development pipeline and access financial resources with some degree of expectation that their successful execution of real estate projects will lead to the opportunity to continue additional phases of development. When that

environment is absent, it becomes difficult for neighborhood based organizations to maintain a consistent level of funding for operations and projects, and to retain staff and the knowledge base not just to complete development activity, but to carry out the property and asset management of their portfolios over time.

One argument that has been put forth to support the lottery system is that there is a small difference in points between projects awarded credits and those that are not. Another argument is that the structure of scoring can end up favoring one geographic area or type of project over others. Those are concerns that can still be dealt with in the framework of a competitive scoring system.

Streamlining the existing scoring structure would provide a better platform for a competitive scoring system. Since the low-income housing tax credit program is one of the few sources of financing for affordable rental housing, there has been a tendency to add many factors to the scoring as a reflection of the social goals that the State is trying to achieve. Detroit LISC recommends that MSDHA convene a group of stakeholders (see point #7) for the purpose of identifying a small number of key goals for the low-income housing tax credit program and then revamping the scoring system and set-asides to fit those priorities.

3) Special Needs

Detroit LISC strongly supports the production of affordable housing for residents that are considered special needs and urges that such development should be an important public policy objective for the State of Michigan. Unfortunately, the amount of subsidy available on for the development and operations of special needs housing at all government levels is limited.

Design of the LIHTC program in Michigan should be done with the goal of a balance among the need for special needs housing and permitting developers flexibility to plan for a diversity of housing options for low income residents.

Analysis of the special needs plan and the marketing study should emphasize a strong link between the special needs population and the needs of residents in the neighborhood (or within an appropriate larger geographical area, such as a city in an urban area or a county in a rural area). The narrative submitted by the developer should explain the reason for their selection of the special needs population in the context of a larger development plan for the neighborhood that is the subject of the LIHTC project and the long term objectives of the developer as demonstrated by their organizational business or strategic plan.

4) Establishing a Regular Schedule for QAP Revisions and Credit Allocation Rounds

A two year period is an appropriate length of time for any version of a QAP. Building in a regular two year process of seeking public input and considering revisions allows for the QAP to be flexible to changing industry conditions and to evaluate the impact of current policies. In addition, the credit rounds should be scheduled on a regular basis so that developers can incorporate the timing into their plans as they begin to transform conceptual plans into actual predevelopment activities. Also, the forward commitment of credits that occurred over the past three years resulted in an erratic supply of credits from round to round, another factor making it difficult for developers to make decisions on moving ahead with the preparation of projects.

5) Providing Background on QAP Changes

Within the Introduction in Section I of the QAP, MSHDA provides a description of the purpose of the LIHTC program, summarizes the requirements of State and Federal Law which impact the process for allocation of credits, and states that best practices issued by the Michigan Land Use Leadership Council and National Council of State Housing Agencies have been incorporated into the 2005-06 QAP.

As part of the Introduction, MSHDA should provide background on the reason for each of the changes it proposes when it issues a draft QAP for public comment. Also, an explanation of why MSHDA is choosing to create or maintain set-asides would be helpful as well.

Enough information should be provided so that community development practitioners and stakeholders can understand the issues that MSHDA is trying to address by making the proposed changes. This knowledge will help readers of the QAP to better evaluate and make suggestions which could assist MSHDA in addressing issues the agency has identified.

6) LIHTC Roundtable

Creating a public comment period before the draft QAP is released, followed by another public comment period does provide a better opportunity for the views of the public to be communicated to MSHDA at an earlier stage in the process.

Aside from the public comment process for the QAP, Detroit LISC is supporting the creation of A LIHTC roundtable for the purpose of providing a quarterly forum for the discussion of issues around the program. Representatives from MSHDA, nonprofit developers, for profit developers, lenders, and syndicators will participate. Topics that could be part of the quarterly discussions include:

- * Trends that emerge affecting the existing portfolio of LIHTC projects
- * Studies of QAP policies among other states
- * Experience of developers and MSHDA during the application stage and at other points in the development process

Once again, we thank MSHDA for all of its past efforts at designing and implementing programs, financing and technical assistance geared towards the increased production of affordable housing.

Sincerely,

Deborah Younger

Deborah Younger
Program Director